

1972
Annual
Report

AR26

SUPERIOR ACCEPTANCE CORPORATION LIMITED



Directors

Dr. Alan S. Brown

Donald Carr, Q.C.

Abe Posluns

Alan I. Posluns

Richard W. J. Posluns

Officers

Abe Posluns

Chairman of the Board

Alan I. Posluns

President

Norman W. Arnold

Vice-President

Richard W. J. Posluns

Secretary

Richard J. Burghardt

Treasurer

Transfer agent and registrar

Guaranty Trust Company

Auditors

Perlmutter, Orenstein, Giddens, Newman & Co.

Clarkson, Gordon & Co.

Head office

22 College Street

Toronto, Ontario M5G 1K6

Annual meeting

Friday, June 22, 1973 at 11:00 a.m.

Royal York Hotel

Toronto



Alan I. Posluns

To our shareholders

On behalf of your Board of Directors, I am pleased to present our first annual report since becoming a public company.

1972 was the most successful year in our history, with accounts receivable reaching an all-time high of \$22,700,000, which represents an increase of \$3,300,000 over the previous year. Net earnings for the year rose from 46¢ to 54¢ per share on a weighted average basis.

On May 31, 1973 we will be paying our first quarterly dividend of 4¢ per share to shareholders of record dated May 15, 1973. Shareholders of Class A shares will receive their dividends after the deduction of a 15% tax paid by the Company in order to qualify the dividends as "tax free" in their hands.

Superior makes cash loans to individuals through 22 loan offices, and finances retail credit sales through 32 offices located in department stores. Our relationship with Woolco Department Stores during past years has resulted in a greater increase in the retail receivables division than in the cash loans division. During 1972, 4 new retail credit offices were opened — one each in Prince Albert and Edmonton and two in London.

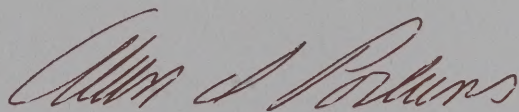
With additional sources of funds available to the Company, a more aggressive expansion program is planned, particularly in the cash loans division. Prospects for 1973 look extremely bright.

In April 1973 we opened 1 new retail credit office and we plan to open at least 3 additional retail credit offices in 1973. We also foresee a strong growth pattern in the consumer loan division through increased advertising and promotion, and we expect to open additional loan offices during the latter part of the year.

During 1972 additional long term financing was arranged, and management is currently negotiating further long term financing to support the continued growth program that Superior is embarking upon.

We take a great deal of pride in our close relationship with our staff throughout the country, and sincerely appreciate their efforts, which have enabled us to continue our growth and to build a strong company for the future.

On behalf of the Board,



Alan I. Posluns
President

May 25, 1973.

Consolidated Balance Sheet December 31, 1972

(with comparative figures at December 31, 1971)

ASSETS	<u>1972</u>	<u>1971</u>
Loans and accounts receivable (including approximately \$12,304,000 due within one year ; 1971 – \$10,273,000) :		
Cash loans	\$ 8,737,344	\$ 9,160,854
Retail receivables	13,990,043	10,253,676
	<u>22,727,387</u>	<u>19,414,530</u>
Allowance for losses	(751,000)	(701,009)
	<u>21,976,387</u>	<u>18,713,521</u>
Unearned finance charges (note 2)	(1,877,426)	(1,958,145)
	<u>20,098,961</u>	<u>16,755,376</u>
Cash	12,050	11,975
Sundry accounts receivable and prepaid expenses	55,294	68,763
Income taxes recoverable		107,681
Furniture, equipment, automobiles and leasehold improvements at cost less accumulated depreciation and amortization of \$349,170 (1971 – \$329,843)	165,245	160,070
Excess of cost of shares in subsidiaries over equity in their net assets at date of acquisition	753,838	753,838
	<u>\$21,085,388</u>	<u>\$17,857,703</u>

On behalf of the Board :

Abe Posluns, Director

Alan I. Posluns, Director

LIABILITIES AND SHAREHOLDERS' EQUITY

	<u>1972</u>	<u>1971</u>
Loans payable :		
Secured bank indebtedness (note 3)	\$11,080,549	\$ 8,882,941
Secured long term notes payable including \$292,000 due within one year (1971 – \$390,000) (notes 3 and 4)	3,629,307	3,332,387
Subordinated debentures, 6%% due November 30, 1972		728,000
Subordinated debentures due May 1, 1980 including \$135,000 due within one year (notes 5 and 7)	1,012,500	
Advances from shareholders and associates (note 6)	1,104,403	822,391
	<u>16,826,759</u>	<u>13,765,719</u>
Accounts payable and accrued charges	381,604	239,477
	<u>65,370</u>	
Income taxes payable – current		
– deferred	46,920	59,500
	<u>112,290</u>	<u>59,500</u>
Total liabilities	<u>17,320,653</u>	<u>14,064,696</u>
Shareholders' equity :		
Share capital (notes 5 and 10)	981,110	1,395,010
Retained earnings (note 5)	2,783,625	2,397,997
	<u>3,764,735</u>	<u>3,793,007</u>
	<u>\$21,085,388</u>	<u>\$17,857,703</u>

Consolidated Statement of Retained Earnings

for the year ended December 31, 1972

(with comparative figures for the year 1971)

	1972	1971
Retained earnings, beginning of year	\$2,397,997	\$2,187,645
Net income for the year	567,588	547,760
	<u>2,965,585</u>	<u>2,735,405</u>
Dividends paid :		
Cash —		
Preference	2,520	66,820
Common shares (now Class B shares)		189,412
Class C special shares (now Class A shares), including tax thereon	46,812	
Class D special shares (now Class B shares)	109,228	
Stock —		
Class C special shares (now Class A shares), including tax thereon		81,176
	<u>158,560</u>	<u>337,408</u>
Expenses of share issue (less applicable taxes)	23,400	
	<u>181,960</u>	<u>337,408</u>
Retained earnings, end of year	<u>\$2,783,625</u>	<u>\$2,397,997</u>

(See accompanying notes to consolidated financial statements)

Consolidated Statement of Income

for the year ended December 31, 1972

(with comparative figures for the year 1971)

	1972	1971
Income:		
Interest, service charges and commissions (note 2)	\$4,263,540	\$3,768,297
Expenses:		
Interest (including interest on long term debt of \$362,295; 1971 — \$201,284)	979,444	807,244
Provision for losses on collection of receivables	239,826	118,255
Depreciation and amortization	48,054	45,504
Salaries and other operating expenses (notes 1 and 8)	1,923,308	1,698,734
	<u>3,190,632</u>	<u>2,669,737</u>
Income before income taxes	1,072,908	1,098,560
Income taxes — current	517,900	500,500
— deferred	(12,580)	50,300
	<u>505,320</u>	<u>550,800</u>
Net income for the year	\$ 567,588	\$ 547,760
Earnings per share (note 13)	<u>\$0.54</u>	<u>\$0.46</u>

(See accompanying notes to consolidated financial statements)

Auditors' Report

To the Shareholders of

Superior Acceptance Corporation Limited:

We have examined the consolidated balance sheet of Superior Acceptance Corporation Limited and its subsidiaries as at December 31, 1972 and the consolidated statements of income and retained earnings for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1972 and the results of their operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Perlmutter, Orenstein, Giddens, Newman & Co.,
Chartered Accountants

Toronto, Canada,
March 22, 1973.

Clarkson, Gordon & Co.,
Chartered Accountants

Notes to Consolidated Financial Statements December 31, 1972

1. Accounting presentation

The comparative figures for the year ended December 31, 1971 have been revised to conform with the presentation adopted in 1972. In particular, salaries which were previously classified separately have now been included with other operating expenses.

2. Basis of recognition of income

Income is taken into account on the following bases:

Small loans – interest is taken into income as collected.

Large loans and conditional sales agreements – no amount is taken into income at the time of making the loan or acquiring the conditional sales agreement. Finance charges are taken into income as earned over the term of such loan or such conditional sales agreement, employing the sum of the digits method.

Revolving credit receivables – receivables are acquired from department stores at face value less a commission, which is taken into income at the time the receivable is acquired. The accounts are then billed each month and a monthly service charge is applied based upon the unpaid balance at the end of the previous month; this service charge is taken into income as billed.

3. Assets pledged

Substantially all of the assets of the company and its subsidiaries are pledged to secure bank indebtedness and the long term notes payable.

4. Long term notes payable

	Annual repayment requirement	Principal amount outstanding			
		December 31, 1971		December 31, 1972	
		\$ U.S.	\$ U.S.	\$ Canadian	\$ U.S.
Series "A" 7% due November 15, 1972	\$100,000	\$ 100,000	\$ 97,750		
Series "B" 6¼% due April 15, 1975	100,000	400,000	430,250	\$ 300,000	\$ 322,687
Series "C" 6½% due December 15, 1979	83,000	667,000	715,983	584,000	626,888
Series "D" 6¼% due January 15, 1978	50,000	350,000	375,922	300,000	322,219
Series "E" 7¼% due August 15, 1982	38,500	423,000	459,748	384,500	417,904
Series "F" 10% due December 1, 1984	*	1,250,000	1,252,734	1,250,000	1,252,734
Series "G" 9% due August 15, 1985	**			700,000	686,875
		<u>\$3,190,000</u>	<u>\$3,332,387</u>	<u>\$3,518,500</u>	<u>\$3,629,307</u>

*Repayment of the Series "F" note commences December 1, 1975 at the rate of \$125,000 per year.

**Repayment of the Series "G" note commences August 15, 1976 at the rate of \$70,000 per year.

The notes are payable in United States dollars and are recorded at the Canadian dollar equivalent of the funds received at the dates of issue. Foreign exchange gains or losses incurred on repayment of notes are reflected in the statement of income in the year realized.

5. Retained earnings and restrictions on distributions

Superior Acceptance Corporation Limited and its subsidiaries have approximately \$3,000,000 of 1971 undistributed income on hand in respect of which they may create tax paid undistributed surplus on payment of 15% tax.

The Trust Deed covering the long term notes payable imposes certain restrictions on distributions by way of dividends, stock redemptions and redemption of the subordinated debentures due May 1, 1980. At December 31, 1972 the amount available for future distributions was approximately \$142,000.

6. Advances from shareholders and associates

It is the companies' policy to pay interest on advances made by shareholders and associates at 1 percentage point over current bank interest rates paid by Superior Acceptance Corporation Limited. These advances are repayable on demand.

7. Subordinated debentures due May 1, 1980

Interest on the subordinated debentures due May 1, 1980 is payable at 1 percentage point over current bank interest rates paid by Superior Acceptance Corporation Limited. These debentures are repayable in quarterly instalments aggregating \$135,000 per year.

8. Remuneration of directors and senior officers

The aggregate remuneration paid or payable to directors and senior officers of the company during the year ended December 31, 1972 amounted to \$184,107 (1971 — \$179,147).

9. Stock options

On November 22, 1972 the board of directors of the company adopted an employee stock option plan, pursuant to which options to purchase 10,000 Class A shares of the company may be granted to bona fide full-time officers and employees of the company. Under the said plan, the board of directors has authorized the granting of options to purchase 8,000 of the said Class A shares to seven employees of the company. These options are exercisable at the rate of 20% per year commencing November 22, 1973 at \$4.50 per Class A share and expire on November 22, 1978.

8,000 Class A shares have been reserved for issue pursuant to these options.

10. Share capital

The authorized and issued share capital of the company is as summarized below:

	Number authorized	Issued	
		Number	Amount
December 31, 1971 :			
Class A preference shares, par value \$10 each, issuable in series	500,000	—	—
Class B 5% non-cumulative preference shares, par value \$100 each, redeemable at \$110	13,410	12,464	\$1,246,400
Class C special shares without par value	312,081	312,081	44,583
Common shares without par value	2,687,919	728,189	104,027
			<u>\$1,395,010</u>
December 31, 1972 :			
Class A fully participating shares without par value	2,000,000	562,079	\$ 884,225
Class B fully participating shares without par value	1,000,000	678,191	96,885
Common shares without par value	100	—	—
			<u>\$ 981,110</u>

During the year the following changes took place:

- (a) 12,464 Class B preference shares were purchased for cancellation at their par value of \$1,246,400 (of which \$1,080,000 was returned to the company in exchange for an equivalent dollar value of subordinated debentures due May 1, 1980);
- (b) By articles of amendment dated June 8, 1972 and November 14, 1972 –
 - (i) All the authorized but unissued Class A preference shares and the remaining 946 authorized but unissued Class B preference shares were cancelled;
 - (ii) The 728,189 issued common shares were reclassified as authorized and issued Class D special shares;
 - (iii) The remaining authorized common shares were reduced from 1,959,730 shares to 100 shares;
 - (iv) The Class C and Class D special shares were made intra-convertible on a share for share basis (following which 49,998 Class D special shares were converted into 49,998 Class C special shares);
 - (v) The Class C special shares were redesignated as Class A fully participating shares with an authorized total of 2,000,000 shares;
 - (vi) The Class D special shares were redesignated as Class B fully participating shares with an authorized total of 1,000,000 shares.
- (c) 200,000 Class A shares were issued for a net consideration of \$832,500.

The holders of the Class A shares, the Class B shares and the common shares participate equally, share for share, in any dividend declared by the company. The holders of the Class A shares may receive dividends declared by the company, in whole or in part, consisting of (1) ordinary dividends, (2) dividends paid out of 1971 capital surplus on hand, or (3) dividends paid out of tax-paid undistributed surplus. To the extent that the dividends paid to the holders of the Class A shares consist of payment by way of either methods (1) or (2), the holders of the Class B shares and the common shares will receive dividends in an amount per share equal to the amount received by the holders of the Class A shares; to the extent that the dividends paid to the holders of the Class A shares consist of payment by way of method (3), the holders of the Class B shares will receive dividends in an amount equal to the dividend paid to the holders of the Class A shares plus the taxes paid by the company in respect of such dividend in order to permit the payment thereof out of tax-paid undistributed surplus in accordance with the provisions of the Income Tax Act, on a share for share basis. The method employed for the payment of dividends on the Class A shares is at the discretion of the directors, but, under present income tax legislation, the company may not pay tax-free dividends using method (2) set forth above until it has paid tax on all its undistributed surplus. Any dividend paid using method (2) or (3) set forth above will reduce the holder's adjusted cost base of the share upon which such dividend was paid by an amount equal to the amount of the dividend.

Class A shares may be converted into Class B shares and Class B shares may be converted into Class A shares at any time at the option of the respective holders thereof on a share for share basis.

11. Lease commitments

The approximate rental commitments, under existing leases, for each of the next five years is as follows:

1973 –	\$81,034
1974 –	64,863
1975 –	56,362
1976 –	45,558
1977 –	30,800

It is expected that in the normal course of operations expiring leases will be extended or replaced.

12. Source and application of funds

The normal source and application of funds statement is not meaningful in the case of finance companies, and accordingly, is not included as such in the accompanying statements. However, the change in investment in loans and accounts receivable, and the manner in which the change was provided is as follows:

	1972	1971
Increase in loans and accounts receivable net of unearned finance charges	<u>\$3,393,576</u>	<u>\$1,528,550</u>
Funds provided from:		
Net earnings for the year	\$ 567,588	\$ 547,760
Add items not requiring cash outlay –		
Depreciation and amortization	48,054	45,504
Allowance for losses	49,991	(35,416)
Total funds from operations	<u>665,633</u>	<u>557,848</u>
Increase in loans payable	3,061,040	1,869,119
Increase in taxes payable	160,471	
Increase in accounts payable	142,127	64,260
Proceeds on disposal of fixed assets	14,708	10,968
Sundry accounts receivable	13,469	
Proceeds of share issue	832,500	
	<u>4,889,948</u>	<u>2,502,195</u>
Funds applied to:		
Sundry accounts receivable		20,309
Purchase of fixed assets	67,937	55,935
Increase in cash balance	75	500
Decrease in taxes payable (net of taxes recoverable)		469,493
Dividends paid (including tax thereon)	158,560	337,408
Expenses of share issue (less applicable taxes)	23,400	
Redemption of preference shares at par	1,246,400	90,000
	<u>1,496,372</u>	<u>973,645</u>
	<u>\$3,393,576</u>	<u>\$1,528,550</u>

13. Earnings per share

The earnings per share for 1972 are based on the weighted average number of shares outstanding during the year.



Head Office: 22 College Street, Toronto

